Facilities & Administrative Costs & Recoveries

MED Research Town Hall Meeting
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Associate Vice President, Financial Affairs
Facilities & Administrative (F&A) Cost Rate

• The Facilities and Administrative (F&A) rate is the negotiated overhead rate applied to recover (administrative, facilities) support costs provided to sponsored programs by the institution.

• It determines the rate at which the federal government and other sponsors will bear their “fair” share of costs associated with BU sponsored programs.

• The rate applied then is intended to support “indirect” costs that cannot be identified readily and specifically with a particular sponsored project.

• F&A Cost Recovery is NOT a “profit margin” on research activities
  – BU must subsidize research due to a variety of downward pressures on cost reimbursement and recovery.
A Simple Calculation

\[
\frac{\text{INDIRECT COSTS}}{\text{DIRECT COSTS}} = \text{F&A RATE}
\]

OR

\[
\frac{\text{TOTAL OF F&A COST POOLS}}{\text{BASE}} = \text{F&A RATE}
\]
### Facilities and Administrative Costs

- **AKA:** F&A, “Indirect”, and “Overhead” Costs
- Costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular activity.

<table>
<thead>
<tr>
<th>Facilities costs</th>
<th>Administrative costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relate to the space in which the awards take place.</td>
<td>Include the expenses associated with the overall administration on campus as well as the costs of administering sponsored projects.</td>
</tr>
<tr>
<td>Cost to Construct Building</td>
<td>President’s Office</td>
</tr>
<tr>
<td>Cost to operate building (ex- heat, power, custodial, repair, etc.)</td>
<td>General Counsel</td>
</tr>
<tr>
<td>Interest expense</td>
<td>Human Resources</td>
</tr>
<tr>
<td>Libraries</td>
<td>OSP, PAFO</td>
</tr>
<tr>
<td>Equipment</td>
<td>Department Administrations</td>
</tr>
<tr>
<td>Campus Infrastructure</td>
<td>Clerical and Support Staff</td>
</tr>
</tbody>
</table>
• Direct Costs
  – Costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity; or that can be directly assigned to such activities relatively easily with a high degree of accuracy. (OMB A-21)

- Personnel: salaries, wages, fringe benefits, tuition/fees
- Materials & Supplies: goods needed to conduct the project
- Equipment: capital equipment purchases ($>5,000)
- Subawards: financial or other support from a prime awardee to a qualified organization for the performance of a significant portion of the research program
- Consultants: services required that only certain individuals can provide
Modified Total Direct Costs (MTDC)

• MTDC
  – All costs charged to a project with certain exceptions as set forth in OMB Circular A-21.
  – Used to develop the F&A cost bases
  – Do not have F&A costs applied on individual sponsored projects

• Equipment (>\$5,000)
• Capital expenditures
• Charges for patient care
• Student support costs (Tuition remission, Fellowships, Stipends)
• Rental costs
• The portion of each subaward in excess of \$25,000
Direct Cost / MTDC Bases

- **Organized Research**
  - Established work programs and protocols
  - Separately budgeted and accounted for
  - Usually require unused monies to be returned to sponsors
  - Contain requirements for reporting
  - Sponsored by a third party
  - Awarded competitively

- **Instruction**
  - Teaching and training activities of an institution

- **Departmental Research**
  - Research that is not separately budgeted for and without reporting requirements. Includes start up funds.
Direct Cost / MTDC Bases

• Other Sponsored Activities
  – Projects that benefit the community at large
  – Community service, database construction, data collection, data dissemination, and education of the community on areas of public interest.

• Other Institutional Activities
  – Includes the operation of housing, residence halls, hospitals, clinics, patient care, student unions, intercollegiate athletics, bookstores, faculty housing, student apartments, guest houses, hotels, inns, conference centers, chapels, theaters, public museums, unallowable costs, practice plan activities, student clubs, and other miscellaneous activities.
F&A Pools

• Facilities Costs
  – **Building Depreciation**: Ratable amount of depreciation of campus buildings
  – **Equipment Depreciation**: Ratable amount of depreciation is spread over estimated useful life of a piece of equipment
  – **Interest Expense**: Costs of debt associated with buildings which house research and administrative activities
  – **Operations & Maintenance**: Consists of all types of costs related to utilities, janitorial services, non capital repairs and maintenance, engineers, architects, and grounds maintenance
  – **Library**: Expenses of operating the libraries, including current year acquisitions or depreciation of books and periodicals
  – **Utility Allowance**: 1.3% as defined by A-21
F&A Pools

• Administrative Costs
  – **General Administration**: HR, President’s office, OGC, Sourcing & Procurement, and central admin costs which benefit the University.
  
  – **Department Administration**: Costs associated with operating individual departments including a portion of secretarial and clerical costs, operating supplies, Dean’s offices, Business officers
  
  – **Sponsored Projects Administration**: VP of Research, Office of Research Compliance, OSP, PAFO, IRB, IACUC, etc.
Reminder.

\[
\frac{\text{INDIRECT COSTS}}{\text{DIRECT COSTS}} = \text{F&A RATE}
\]

OR

\[
\frac{\text{TOTAL OF F&A COST POOLS}}{\text{BASE}} = \text{F&A RATE}
\]
## Current BU Negotiated Rates

<table>
<thead>
<tr>
<th>Rate Type (Base)</th>
<th>FY12</th>
<th>FY13 &amp; FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organized Research</td>
<td>63.5%</td>
<td>63.7%</td>
</tr>
<tr>
<td>Instruction / Department Research</td>
<td>52.6%</td>
<td>52.6%</td>
</tr>
<tr>
<td>Other Sponsored Activities</td>
<td>36.3%</td>
<td>36.3%</td>
</tr>
<tr>
<td>Off-Campus – ALL</td>
<td>26.0%</td>
<td>26.0%</td>
</tr>
</tbody>
</table>
BU Negotiated Rate History

The chart illustrates the fluctuation of negotiated rates over time from 1970 to 2015. The blue line represents the percentage change, while the red line indicates another related metric. The data shows significant variations, with notable peaks and troughs, reflecting the evolving economic conditions during this period.
F&A Recovery Pressures

- Downward pressures on F&A recovery
  - Negotiation of the proposed F&A rate with the government
  - Some types of programs (i.e. training grants) are restricted in the amount of F&A Paid
  - Administrative Cap
  - F&A Waivers
  - Sponsor limitations:

<table>
<thead>
<tr>
<th>Sponsor</th>
<th>Allowed F&amp;A Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIH Training Grants (T32)</td>
<td>8%</td>
</tr>
<tr>
<td>Centers for Disease Control (CDC)</td>
<td>53% / 8%</td>
</tr>
<tr>
<td>Robert Wood Johnson</td>
<td>18% (TDC)</td>
</tr>
<tr>
<td>Susan G. Komen</td>
<td>25%</td>
</tr>
<tr>
<td>American Heart Association</td>
<td>10%</td>
</tr>
<tr>
<td>Gates Foundation</td>
<td>10%</td>
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</tbody>
</table>
Three Basic Rates

1. **Proposed Rate** = The rate proposed by an institution through the formal proposal process

2. **Negotiated Rate** = The rate established through the negotiation process and published in a formal negotiation agreement

3. **Effective Recovery Rate** = The actual rate of recovery using the negotiated rate from all sponsored programs included in the F&A rate base
Proposed and Negotiated Rates

- **Proposed vs. Negotiated On-Campus Federal Research:**

<table>
<thead>
<tr>
<th>Rate Component</th>
<th>Proposed Rate</th>
<th>FY10 / 11</th>
<th>FY12</th>
<th>FY13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation – Buildings &amp; Improvements</td>
<td>6.61%</td>
<td>5.80%</td>
<td>6.00%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Depreciation – Equipment</td>
<td>2.52%</td>
<td>2.10%</td>
<td>2.20%</td>
<td>2.20%</td>
</tr>
<tr>
<td>Interest</td>
<td>6.69%</td>
<td>5.50%</td>
<td>5.70%</td>
<td>5.80%</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>22.84%</td>
<td>19.80%</td>
<td>20.30%</td>
<td>20.40%</td>
</tr>
<tr>
<td>Library</td>
<td>2.24%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Utility Allowance</td>
<td>1.30%</td>
<td>1.30%</td>
<td>1.30%</td>
<td>1.30%</td>
</tr>
<tr>
<td><strong>Facilities Subtotal</strong></td>
<td><strong>42.20%</strong></td>
<td><strong>36.50%</strong></td>
<td><strong>37.50%</strong></td>
<td><strong>37.70%</strong></td>
</tr>
<tr>
<td>General Administration</td>
<td>9.00%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department Administration</td>
<td>15.45%</td>
<td></td>
<td></td>
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<tr>
<td>Sponsored Programs Administration</td>
<td>4.70%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration (capped at 26%)*</td>
<td>29.15%</td>
<td>26.00%</td>
<td>26.00%</td>
<td>26.00%</td>
</tr>
<tr>
<td><strong>Total On-Campus Research Rate</strong></td>
<td><strong>71.35%</strong></td>
<td><strong>62.50%</strong></td>
<td><strong>63.50%</strong></td>
<td><strong>63.70%</strong></td>
</tr>
</tbody>
</table>

*OMB Circular A-21 limits administrative costs charged to sponsored agreements to 26% of modified total direct costs (this is also known as the “administrative rate cap.”)
Effective Recovery

• The actual rate of recovery using the negotiated rate from all sponsored programs included in the F&A rate base BUMC = 37.1%

• BU subsidizes sponsored program activity to make up for the reduced recovery of F&A costs

• F&A recoveries used as a proxy for proportional allocation of unrestricted funding for faculty, departments and schools